

Message Text

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20

ACTION EUR-12

INFO OCT-01 EA-10 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 AGR-10 L-02 H-02 DODE-00 PA-02 USIA-15 PRS-01

PM-03 SAM-01 /134 W

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R 251853Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8633

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS LONDON 02898

DEPARTMENT PASS TREASURY AND EXPORT IMPORT BANK

E.O. 11652: N/A

TAGS: EFIN, ETRD, UK

SUBJECT: NEW MEASURES TO ENCOURAGE EXPORTS

REF: LONDON 2753

1. FOLLOWING IS TEXT OF AN EXPLANATORY ECGD ANNOUNCEMENT
OF NEW U.K. MEASURES COVERING RISING COSTS AND PERFORM-

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ANCE BONDS.

2. QUOTE THE GOVERNMENT IS INTRODUCING TWO MAJOR NEW FACILITIES TO SUPPORT BRITISH EXPORTS. THE FIRST IS INTENDED TO HELP CAPITAL GOODS EXPORTERS TO DEAL WITH RISING COSTS DURING MANUFACTURE. THE OTHER WILL HELP EXPORTERS TO GET THE PERFORMANCE BONDS OR GUARANTEES WHICH BUYERS OFTEN WANT SO AS TO BE SURE THAT COMPENSATION WILL BE AVAILABLE IF EXPORTERS FAIL TO PERFORM THEIR CONTRACTS PROPERLY.

3. RISING COSTS. EXPORTERS WILL CONTINUE TO HAVE TO TRY TO ABSORB AS MUCH AS POSSIBLE OF ANY PRICE INCREASES THEMSELVES, OR PASS THEM ON TO THEIR BUYERS. THE GOVERNMENT, THROUGH ECGD, WILL TAKE A FIXED SHARE IN COST INCREASES ABOVE THIS POINT; FIXED, TO AVOID AN OTHERWISE UNACCEPTABLY HIGH LEVEL OF PUBLIC EXPENDITURE. THE SCHEME IS ALSO INTENDED TO ENCOURAGE EXPORTERS TO CONTINUE TO CONTROL COSTS, AND TO PASS ON AS MUCH AS IS REASONABLE TO BUYERS. EXPORTERS WILL BE EXPECTED TO SHOW THAT THEIR PRODUCTIVE CAPACITY WILL BE INCREASED AS APPROPRIATE TO ENABLE THEM TO FULFIL CONTRACTS WHICH ARE GAINED THROUGH USING THE SCHEME, WITHOUT GENERATING UNNECESSARY IMPORTS. PREMIUMS FOR COST ESCALATION COVER ARE LIKELY TO BE ABOUT ONE PERCENT A YEAR.

4. PERFORMANCE BONDS. THE GOVERNMENT, AGAIN THROUGH ECGD, IS GOING TO GIVE EARLY HELP TO EXPORTERS TO GET PERFORMANCE BONDS FOR LARGE CONTRACTS FROM THE COMMERCIAL BOND MARKET, BECAUSE BONDS FOR VERY LARGE PROJECTS ARE NOT ALWAYS EASY TO OBTAIN. THIS SUPPORT WILL PROBABLY TAKE THE FORM OF GUARANTEES TO THE ISSUER OF THE BOND. ECGD WILL NOT ITSELF ISSUE BONDS. THE EXPORTER WILL REMAIN LIABLE FOR HIS OWN PERFORMANCE ON THE CONTRACT. IT IS NOT ANTICIPATED THAT THE SCHEME WILL BE ANY CHARGE ON PUBLIC EXPENDITURE. ECGD IS TO TALK TO THE COMMERCIAL MARKET ABOUT THE NEED FOR GOVERNMENT HELP FOR SMALLER-SCALE BUSINESS.

5. THE AIM OF BOTH SCHEMES IS TO HELP BRITISH EXPORTERS COMPETE MORE EFFECTIVELY FOR EXPORT BUSINESS BY BEING BETTER ABLE TO MEET BOTH THE REASONABLE NEEDS OF OVERSEAS UNCLASSIFIED

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BUYERS, AND COMPETITION FROM FOREIGN EXPORTELS. THE GOVERNMENT HOPES THE NEW FORM OF HELP WILL ENCOURAGE BRITISH EXPORTERS TO COMPETE FOR ADDITIONAL EXPORTS WORLD WIDE, PARTICULARLY FOR BUSINESS WHICH WILL BE PAID FOR QUICKLY SINCE THIS WOULD BE OF MOST BENEFIT TO THE BALANCE OF PAYMENTS.

6. ECGD IS PREPARED TO ACCEPT ENQUIRIES ABOUT BOTH SCHEMES

STRAIGHT AWAY, BUT A NUMBER OF DETAILS NEED TO BE SETTLED
BEFORE PROTECTION CAN BE GIVEN. UNQUOTE.

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